

City of Albuquerque

Office of Internal Audit

Martin J. Chavez, Mayor Interoffice Memorandum

October 18, 2002

To: Valorie Vigil, Director, Department of Family and Community Services

Ted Trujillo, Building Maintenance Specialist

From: Debra Yoshimura, Director, Office of Internal Audit

Subject: FOLLOW-UP REVIEW OF AUDIT REPORT NO. 01-118, DEPARTMENT

OF FAMILY AND COMMUNITY SERVICES, ALBUQUERQUE HOUSING SERVICES DIVISION, HOUSING REHABILITATION

PROGRAM CONTRACTORS

The Office of Internal Audit completed a follow-up review of Management Audit Report No. 01-118, Department of Family and Community Services (DFCS), Albuquerque Housing Services Division (AHS), Housing Rehabilitation Program Contractors. The purpose of our review was to determine whether the audit recommendations had been implemented. We determined the following:

<u>RECOMMENDATION NO.1</u>: We recommended that DFCS-AHS request a HUD monitoring visit to review the AHS method for selecting contractors and determining costs, for compliance with federal grant requirements and guidelines. We further recommended that AHS obtain several bids on rehabilitation projects from contractors, without providing the contractors with the AHS costs estimate, to determine if costs could be reduced through competition.

At the time of the audit, AHS was preparing an estimate of costs to perform the rehabilitation work on each home. The estimate was given to the contractor selected by the homeowner. If the contractor agreed to perform the work at the cost estimated by AHS, then the contractor and the homeowner signed an agreement for the rehabilitation work.

ACTION TAKEN:

The recommendation has been partially implemented. At the request of DFCS, the Albuquerque Office of the U.S. Department of Housing and Urban Development (HUD) reviewed the City's Homeowner Rehabilitation Program. In a report issued on October 31, 2001, the HUD Public Trust Specialist stated; "As stated earlier, the process of providing the final cost estimate to the contractor is neither one that is a common practice nor one that is recommended; however, HUD is allowing some latitude in this process. Based upon the City's success with this method HUD is allowing the City to make the final decision in this matter."

It is our understanding that the HUD Office of Inspector General (OIG) is reviewing the City's contracting method further. Any changes in City policy will be made after the HUD-OIG review.

<u>RECOMMENDATION NO. 2:</u> We recommended that DFCS-AHS improve the accuracy of its cost estimating process for housing rehabilitation projects. DFCS-AHS should review the estimates for the housing rehabilitation loans to determine the reason that actual materials costs per the contractors' invoices were consistently lower than the estimated costs.

We also recommended that the written cost estimates prepared by DFCS-AHS contain information such as an estimate of the quantities of materials that will be used, and the number of labor hours required to install the materials. The quantities of materials and labor hours should then be multiplied by a per-unit cost to arrive at a cost estimate. At the time of the audit, cost estimates were lump sums by category with no backup to show how the amounts were determined.

ACTION TAKEN:

The recommendation has not been implemented. Contractor invoices no longer include detail of actual materials costs. As a result, the information is not available to determine if the AHS estimates approximate the actual costs.

The "Description of Work Write-Up and Estimate of Total Cost" (work write-up) forms still show only a lump sum estimate for the work items to be performed. For example:

- For one home rehabilitation, the estimate for "base" is \$350 to "Install new streamline wood base throughout house." There is no estimate of the linear feet of wood base needed or the cost per linear foot.
- In the same home, the estimate for "Carpet" was \$800 to "Install new carpet in living room, hallway, closets, and all bedrooms. New carpet to be 25.5 ounce, continuous filament, 100% Autoclave heat-set nylon, meeting FHA Specifications. Install ½", 5.5 ounce rebounded polyurethane pad. One color and pattern to be chosen by owner from standard color chart. Maximum allowance of \$13.00 per square yard installed." Although this estimate appears to be reasonable based on the area shown on the plans for the rehabilitated home, it would be better to show the calculations used to arrive at the cost estimate.
- The estimate for the "Roof" on another home was \$6,800. The description states, "Construct new 4/12 pitched roof over structure. New roof structure to be 2 x 4 trusses, "Perfection" or pre-approved equal. Install 7/16" CDX plywood or 7/16" wafer board decking with clips. Lay 15#dry sheet and roof with 235# 3-tab composition shingles, "Fry" or pre-approved equal. Color to be selected by owner. Install all necessary metal edgings, flashing, roof jacks, etc., as required for a complete new roof. Extend new roof overhang as shown on plan on

northeast porch entry and complete as specified above and on plans. Install fire blocking and order trusses to bear on bond beam and new furr-out. Permit & Inspection Tag Required." AHS did not have calculations on file to support the estimated cost.

AHS strongly believes that the current method for developing cost estimates and providing the estimate to the contractor is the most cost effective method. (See Recommendation No. 1.) However, if they continue to use this method, the cost estimates prepared by the AHS inspectors should be carefully documented to support the accuracy of the estimate. According to the AHS Inspection Supervisor, the estimates are based on the individual inspectors' knowledge and experience. As a result, there is no documentation to support the calculation of the estimated costs.

We contacted three other Housing Rehabilitation Programs to determine what method they use to develop cost estimates.

- The City of Austin uses a program called Respec that is specifically designed for government funded rehab programs. The Construction Coordinator stated that the inspectors in his department use this software and add 20% to the total for profit and overhead.
- The City of Baton Rouge uses a manual estimating table. The department updates this table regularly to recognize material price changes and wage increases. The inspector uses the estimating tables to determine the cost for each item. The tables are specific for each repair for each room in a house. The inspector then adds up all the individual costs, adds an amount for profit and overhead and arrives at the total cost estimate.
- The City of Akron inspectors use unit cost for all work to be done. Their department has developed an in-house software program that has standard unit costs for all the tasks to be performed in rehabilitating a home. The unit costs are developed after research to determine the cost of materials and the number of labor hours at the prevailing wage rate for the specialist to perform the task. The unit costs are established for the unit of measure required, such as linear feet, square feet, etc depending on the task. Inspectors' estimated costs are allowed to vary from the cost developed using the standard unit cost by 10%, based on special or unusual circumstances.

FOLLOW-UP RECOMMENDATION

DFCS-AHS should document the calculation of the cost estimates for Housing Rehabilitation. The estimates should be based on a current cost estimate schedule and any factors that result in higher costs than those on the schedule should be identified.

EXECUTIVE RESPONSE FROM DFCS

"The Department concurs with the finding that Housing Rehab staff are not yet fully documenting the basis for cost estimates in the rehab files. The Department will take immediate steps to insure that cost estimates are fully documented and that factors resulting in any variations from the Cost Estimate Schedule (higher or lower) are identified and recorded."

<u>RECOMMENDATION NO. 3:</u> We recommended that DFCS-AHS improve its cost estimating review practices. If the cost estimating review determines that a cost estimate is significantly different than typical market prices, then the reasons for that difference should be researched and documented. AHS had a schedule of typical market prices for the materials and labor used in its housing rehabilitation projects. However, the estimated costs for the projects we reviewed were significantly higher than the costs per the schedule.

ACTION TAKEN:

The recommendation has been partially implemented. AHS has prepared an updated Cost Estimate Schedule for the materials and labor for various aspects of the rehabilitation work. We were unable to verify that the costs were typical market value for the work specified. The schedule was last updated in October 2001.

The costs on the schedule were compared to a work write-up prepared in January 2002. It appears that the costs per the schedule and the work write-up were not always related. For example, the work write-up includes \$450 to "Install new evaporative cooler with minimum 4500 CFM, side or downdraft two speed motor, 'Arvin' or pre approved equal and mount on roof. Installation to include all new copper piping, electrical, dampers, ducts, etc., as required to make unit operational. Connect to new duct system to allow for central air." The Cost Estimate Schedule states that the cost to "Install New Evaporative Cooler-4500" is \$620.

According to the AHS Inspection Supervisor, the inspectors use the Cost Estimate Schedule for some but not all work items. He stated that much of the cost estimating is based on the inspectors' knowledge and experience and cannot be tied back to the schedule.

FOLLOW-UP RECOMMENDATION

DFCS-AHS should ensure that the Cost Estimate Schedule is current and the basis for the estimates is documented.

DFCS-AHS should base the work write-up on the Cost Estimate Schedule for the work items to be completed.

EXECUTIVE RESPONSE FROM DFCS

"The Department concurs with the follow up finding and will continue to update its Cost Estimate Schedule regularly. As noted above, the Schedule will be the basis for work write-ups and any reasons for variations from the Schedule will be identified."

<u>RECOMMENDATION NO. 4:</u> We recommended that DFCS-AHS develop and implement a more thoroughly documented inspection process. This process should document the date(s) of inspection, the specific aspects of each construction item that the inspector examined, any deficiencies noted, and actions taken to correct any deficiencies that were noted.

ACTION TAKEN:

The recommendation has been partially implemented. AHS has developed an inspection log for use by the rehabilitation inspectors. Each inspector maintains a log for each project. The logs identify the date and time of the inspection and give "scope of work inspected." The "scope of work inspected" descriptions are brief, such as "finishing soffit and fascia" and "carpet – gas meter." The log indicates the progress on the project, but does not indicate if the work was satisfactory or that deficiencies needing correction were identified.

FOLLOW-UP RECOMMENDATION:

DFCS-AHS should ensure that the inspection logs are completed and that the logs document any deficiencies noted and actions taken, in addition to the date(s) of inspection and the specific aspects of each construction item that the inspector examined.

EXECUTIVE RESPONSE FROM DFCS

"The Department concurs and will insure that the inspection logs are complete and indicate that work was satisfactory or that they note any deficiencies and document actions taken to correct the deficiencies."

<u>RECOMMENDATION NO. 5:</u> DFCS-AHS should document the reviews of vendor qualifications that are used as the basis for acceptance or rejection of vendors to be included on the Active Contractors' List.

DFCS management personnel should carefully document the reasons for overriding the decisions of AHS employees related to the administration of HUD grants. A contractor applied to be on the Active Contractors' List for the Housing Rehabilitation Program. The AHS Inspections Supervisor rejected the application. However, in the DFCS Director's opinion, the contractor was qualified, so the AHS Inspections Supervisor was verbally instructed to add the contractor to the list. According to the DFCS Director, the AHS Inspections Supervisor could not justify his

decision to reject the vendor. The DFCS Director did not document his reasons for overriding the decision of the AHS Inspections Supervisor.

ACTION TAKEN:

The recommendation has been fully implemented. The AHS files include the documentation for the contractor's acceptance or rejection. The AHS Inspections Supervisor includes his notes on contractors' references and experience in the files. Additionally, a letter is sent to a rejected contractor explaining why the application was rejected.

According to AHS personnel, DFCS has not overridden any decisions on the acceptance of contractors since the initial audit was performed.

<u>RECOMMENDATION NO.6:</u> We recommended that DFCS-AHS update its Rehabilitation Standards. The Rehabilitation Standards for the Rehabilitation Section of AHS-DFCS in use at the time of the audit were last revised in 1992.

ACTION TAKEN:

The recommendation has been fully implemented. The Rehabilitation Standards for the Rehabilitation Section of AHS-DFCS were updated in September 2001 and again in July 2002.

<u>RECOMMENDATION NO.7:</u> We recommended that DFCS-AHS review the reasons for the vendors' late work. If a vendor cannot correct the problem, then DFCS-AHS should consider removing the vendor from the Active Contractors List. At the time of the audit, one contractor was late on two of the four rehabilitation projects he was awarded.

ACTION TAKEN:

This recommendation has partially been implemented. At the time of our follow-up review, only one project was identified as being late. The contractor working on the project had a total of six projects in process. According to AHS personnel, the project was late because the owner failed to move out on the specified date and there was a substantial amount of lead based paint that had to be removed. The documentation of these issues was not yet included in the project file; however, AHS personnel stated that it would be documented upon completion of the project.

DFCS-AHS stated that the contracts are between the contractors and the homeowners; therefore, the homeowners make the decision to pursue action with a contractor for late work. DFCS-AHS becomes involved in a resolution for late work by a contractor only if they are requested to do so by the homeowner.

One factor that may contribute to late projects is the number of projects that a contractor has in process. DFCS-AHS should consider establishing a maximum number of projects that each contractor may have in process at any time. This would provide incentive for the contractors to complete projects promptly.

DFCS-AHS is the facilitator for the rehabilitation process and should ensure that the homeowners' interests are protected and that the projects are completed timely. As an additional measure to protect the homeowners, those contractors who continue to be late in completing projects should be temporarily suspended from the eligible contractors list until all late projects are completed.

FOLLOW-UP RECOMMENDATION

DFCS-AHS should monitor the timeliness of contractors work. DFCS-AHS should establish a maximum number of projects that any contractor may have in process at any given time. Those contractors who continue to be late in completing projects should be temporarily suspended from the eligible contractors list until all late projects are completed.

EXECUTIVE RESPONSE FROM DFCS

"The Department concurs that it should routinely monitor the timeliness of contractors' work and that contractors who continue to be late without justification should be temporarily suspended until late projects are completed. It is important to note, however, that only one of 38 current projects is late. Given the fact that timeliness is not a major problem in the program, we believe that a limit on the number of projects that any contractor may have at a given time is not necessary and would unfairly penalize those who are performing in a timely manner. If the frequency of unjustified late projects increases significantly, the Department would consider such a limitation as a remedy."

<u>RECOMMENDATION NO.8:</u> We recommended that DFCS-AHS comply with City Rehabilitation Program Guidelines. DFCS-AHS should ensure that only improvements which are "necessary to meet the City Housing Code" are funded through the deferred payment loan program. An AHS deferred payment loan project, consisted of two parts: (1) the rehabilitation of the existing home, and (2) the construction of an addition to the existing home. The original home was 580 square feet. The rehabilitation included an addition of 192 square feet.

Section II, USE OF LOAN FUNDS, of the City's Community Development Block Grant Housing Rehabilitation Loan Program Guidelines (Guidelines), states:

"Eligible Improvements . . .

"1. For applicants eligible for deferred payment loans, eligible improvements shall only be those necessary to meet the City Housing Code, those necessary to correct conditions which can be reasonably anticipated to result in code violations within one year from the date of the initial Property inspection (incipient Code violations) and those neighborhood improvement items which do not exceed minimum Rehabilitation Section standards."

The City Housing Code requires that "Every dwelling unit shall contain at least 150 square feet of floor space for the first occupant thereof and at least 100 additional square feet of floor space for every additional occupant thereof, the floor space to be calculated on the basis of total habitable room area." According to Planning Department Code Enforcement personnel, habitable living space is everything except, kitchens, bathrooms, hallways and closets.

The Rehabilitation Standards for the Rehabilitation Section of Albuquerque Housing Services, the Housing Division of the City of Albuquerque Department of Family and Community Services (Rehab Standards), includes space standards for substantial reconstruction. According to the Rehab Standards, "Every dwelling unit shall contain at least 720 square feet of heated floor space for one permanent resident, up to 1200 square feet of heated floor space for ten or more permanent residents." HUD approved the Rehab Standards when they were developed at the inception of the program. HUD has not required AHS to submit subsequent revisions for approval. However, the latest version is provided to HUD personnel when they perform program monitoring.

ACTION TAKEN:

The recommendation has been partially implemented. It appears that AHS has adopted standards that exceed the minimum City Housing Code requirements. According to AHS officials, the greater living space was recommended by the Housing Advisory and Appeals Committee to ensure that the rehabilitated property would be marketable should the City have to take possession of the property.

The Guideline states that eligible improvements for deferred loans are limited to only those necessary to meet the City Housing Code. It appears that there is conflicting language in the Guidelines and the Rehab Standards.

We reviewed the HUD Housing Quality Standards to determine if the Rehab Standards are consistent with HUD's requirements. The Housing Quality Standards do not include requirements for square footage by occupant. Therefore, the minimum's contained in the Rehab Standards are not mandated by HUD.

FOLLOW-UP RECOMMENDATION:

DFCS should review the Guidelines and the Rehab Standards for inconsistent language. The documents should be amended to correct the inconsistencies and

accurately reflect the City's policies for administration of the program. DFCS should determine if Rehab Standards that exceed HUD requirements are appropriate.

EXECUTIVE RESPONSE FROM DFCS

"The Department agrees that the Guidelines and Rehab standards should be consistent and will amend the documents as necessary. Given that the Rehab Standards include kitchens, baths, closets, and hallways in the minimum square footage calculations and the Guidelines (based on Housing Code) do not, we do not believe that the divergence is great and can be resolved with minimal difficulty."

<u>RECOMMENDATION NO. 9:</u> We recommended that DFCS-AHS record insurance claims received in excess of actual cost of a repair as revenue. A reimbursement check from an insurance company was received for \$2,000, but the invoices to repair the claimed damage totaled \$1,629. The \$2,000 was credited to the repairs expense account. At the time of the audit, there was no additional journal entry recorded for the reimbursement amount that exceeded the total cost.

ACTION TAKEN:

The recommendation has been fully implemented. DFCS-AHS made a journal entry on June 30, 2001, to debit the repairs expenditure and to credit other income for \$371.

<u>RECOMMENDATION NO. 10:</u> We recommended that DFCS-AHS require vendors to provide detail on the materials included on the invoices for repairs to City-owned housing. DFCS-AHS should verify the materials provided to the vendor for repairs to City-owned housing are not charged back to the City. The AHS, Public Housing Section supplies some materials to vendors in order to maintain a level of consistency in rental properties. The vendor supplied some of the repair materials, and the PHS supplied other materials. However, the vendor's invoices did not contain sufficient detail to verify this.

ACTION TAKEN:

The recommendation has been fully implemented. The vendors that repair public housing units no longer include materials on invoices.

DDY/... Attachment

xc: Jay Czar, CAO James B. Lewis, COO Irene Garcia, CFO Sandra Doyle, Director, DFAS